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Review of the efficiency of the administrative and financial functioning of the United Nations

Comprehensive report of the Secretary-General on United Nations procurement activities

Report of the Advisory Committee on Administrative and Budgetary Questions

I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered the comprehensive report of the Secretary-General on United Nations procurement activities (A/64/284 and Add.1 and 2). During its consideration of the report, the Advisory Committee met with representatives of the Secretary-General, who provided additional information and clarification.

2. The report of the Secretary-General has been submitted pursuant to General Assembly resolutions 59/288 of 13 April 2005, 61/246 of 22 December 2006 and 62/269 of 20 June 2008. The Advisory Committee has commented on the Secretary-General's procurement reform initiatives in its reports A/60/904 of 26 June 2006, A/61/937 of 1 June 2007, paragraphs 126-131, and A/62/721 of 5 March 2008. The General Assembly has endorsed the conclusions and recommendations of the Committee, subject to the provisions of the resolutions mentioned above.

3. The report follows up on the previous comprehensive report of the Secretary-General on United Nations procurement activities (A/62/525 of 6 November 2007) and outlines in its addenda the governance arrangements and related initiatives of the Secretariat procurement functions (A/64/284/Add.1) and the concept of sustainable procurement (A/64/284/Add.2). The main report discusses the implementation of procurement reform activities, focusing on three main themes: (a) strengthening of internal control; (b) improvements in the acquisition process; and (c) establishment of a strategic procurement function. Addendum 1 includes information on the distribution of procurement roles between the Department of Management and the Department of Field Support and outlines the regulatory and internal control frameworks within which the procurement function is carried out. The Secretary-General indicates that the amended governance arrangement would

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be implemented within the present framework of the Financial Regulations and Rules of the United Nations,[1] and no amendment to the existing regulatory framework is proposed. An action plan for its implementation, including time frames for the short term and medium term, is included in addendum 1. Addendum 2 contains a report on the content of and criteria for the concept of sustainable procurement, including information on its possible impact on the diversification of the origin of vendors and international competition, including for developing countries and countries with economies in transition.

Report format and presentation

4. The Advisory Committee was informed that the report and its addenda were organized and presented following the order of the procurement reform mandates set out in the General Assembly resolutions mentioned above (see A/64/284, annex I). **In the Committee's opinion, the report does not provide a basis for assessing improvements in the procurement function or the adequacy of the internal control regime. Further, given the past investment in information technology and training of staff, the report should have clearly indicated the productivity gains in the procurement functions. The Committee comments further on these matters in the paragraphs below.**

5. **The Advisory Committee recalls its observations (see A/62/721, para. 5) that the report on procurement reform should include data and other evidence to substantiate the statements on the progress achieved, including information on the mechanisms that have been put into place to monitor progress, data analyses and performance indicators that would reflect progress made in the implementation of activities. The report fails to address these highlighted aspects and results achieved.**

Procurement volume at the United Nations Secretariat

6. The Secretary-General indicates in paragraph 1 of his report (A/64/284) that there has been a large increase in procurement volume for Headquarters and peacekeeping missions, from $1.3 billion in 2004 to $3.2 billion in 2008. The figures do not include procurement by United Nations offices away from Headquarters (at Geneva, Nairobi and Vienna). Procurement volume in these three Offices was about $96.7 million in 2008. The Advisory Committee was informed that the delegation of procurement authority to offices away for Headquarters carries low risk in view of the total volume of procurement actions. Upon request, the Committee was provided with information on procurement volume for offices away from Headquarters, tribunals and regional commissions, which had amounted to $160.4 million for 2008 and $230.2 million for 2007 (see annex I to the present report). **The Committee requests that in future reports, the Secretary-General present the totality of procurement volume of the entire Secretariat, including procurement by offices away from Headquarters, tribunals and regional commissions.**

[1] ST/SGB/2003/7.

7. As indicated in the report, the United Nations Office at Geneva, the United Nations Office at Nairobi and the United Nations Office at Vienna have been given unlimited delegated authority from Headquarters to carry out procurement functions, with a local committee on contracts rendering advice to the head of administration on proposed awards in excess of $200,000. The delegation of authority for procurement functions at regional commissions and tribunals requires, as at the offices away from Headquarters, the establishment of a committee on contracts to render advice to the Chief Procurement Officer on proposed awards in excess of $200,000. The proposed awards are then submitted for review by the Headquarters Committee on Contracts and approval by the Assistant Secretary-General for Central Support Services (A/64/284/Add.1, paras. 24-25 and annex I). **The Advisory Committee is of the opinion that the report does not explain the mechanism in place for regular review of the delegation of authority and accountability of procurement staff in offices away from Headquarters, tribunals and regional commissions. The Committee stresses that the implementation of delegated authority needs to be monitored on a regular basis, and that offices should be equipped to evaluate and manage the risk associated with what is being delegated to them. The Committee comments further on the issues of accountability and delegation of authority below.**

Workload measurement

8. Table 1 of the report (A/64/284) shows a breakdown of procurement volume and the number of approved posts for the Procurement Division in the period 2004-2008, and figure III of the report compares the value of purchase orders with the number of approved posts for the Procurement Division in the same period. The trend described illustrates an apparent discrepancy between the staffing levels and the increased workload produced mainly by the surge in peacekeeping operations. The report claims that the high workload and low staffing increase the potential for a deficient acquisition process and higher risk in all procurement activities. In paragraph 2, the report indicates that the Procurement Division will require additional staff to keep up with workload increase, particularly in support of peacekeeping operations. The Advisory Committee requested information on total procurement staff in field missions. As of 23 September 2009, the number of posts approved had been 377, of which 73 posts were vacant (see annex II to the present report).

9. Upon request, information was provided on various indicators used by the Procurement Division to measure its performance in the different areas of its operations, namely, financial, customer satisfaction, vendor registration, business seminar programme, etc. The Advisory Committee was informed that the Procurement Division is not able to consistently measure its performance in terms of the time required to process a procurement action because the present information technology system is not designed to provide this information.

10. Upon request, the Advisory Committee was provided with an additional graph which shows the number of purchase orders as a function of posts (see annex III of the present report). This information should be reviewed together with figure III of document A/64/284.

11. The Advisory Committee points out that the issue of workload measurement is not adequately addressed in the report. In the view of the Committee, the next report of the Secretary-General on procurement activities should include performance indicators and quantitative analysis which could help the Procurement Division monitor its workload and the efficiency of its procurement actions by providing a basis for comparing one period with another. The Committee believes that such data would be critical to facilitating the assessment of the need for additional staff as well as the impact of new and improved systems and procedures and staff training on the efficiency of procurement actions.

II. Internal control mechanisms and strategic management issues of the United Nations procurement function

A. Governance

12. The report of the Secretary-General on governance arrangements within the United Nations (A/64/284/Add.1) has been submitted pursuant to paragraph 19 of General Assembly resolution 61/246. According to paragraph 5 of addendum 1, the report contains a review of the following elements: (a) the management and support arrangements for procurement, including responsibilities and lines of accountability and delegation of authority; (b) the findings of the working group established to examine ways in which the organizational structure could be changed to better align responsibility with authority and to improve the overall control environment for procurement for peacekeeping operations; (c) the respective responsibilities of the Department of Management and the Department of Field Support; (d) streamlined procurement procedures for peacekeeping operations, including specific information on mechanisms for strengthening monitoring, oversight and accountability; (e) the functioning of the Headquarters Committee on Contracts and the local committees on contracts.

13. The Advisory Committee notes, as stated in paragraph 12 of addendum 1 (A/64/284/Add.1) that, for the purposes of that report of the Secretary-General, governance of the procurement function was defined as the exercise of authority to provide direction and to undertake, coordinate and regulate activities by establishing internal controls in support of achieving desired outcomes.

14. Under the current organizational arrangements, the Department of Peacekeeping Operations maintains responsibility for political direction of peacekeeping operations, while the Department of Field Support is responsible for administrative and logistic support. The latter Department also provides support services to the Department of Political Affairs in the creation and servicing of special political missions. The organizational structure of peacekeeping operations reflects in part the dual reporting and accountability lines with regard to the management and operations of peacekeeping operations (A/64/284/Add.1, para. 27).

15. The Advisory Committee notes from paragraph 36 of A/64/284/Add.1 that the demands of field operations have grown exponentially in both size and complexity, reflecting the expansion of peacekeeping operations as a whole. In 2008, procurement offices of peacekeeping and special political missions issued purchase orders for goods and services valued in an amount of over $1.4 billion. The

Committee is cognizant that, by their very nature, operations in field missions are dynamic and fast-paced, particularly during the start-up phase. In paragraphs 36-39 of document A/64/284/Add.1, the Secretary-General outlines the major challenges arising from operational requirements of peacekeeping missions and stresses the importance of integrating procurement concerns at a very early stage in the planning efforts of the peacekeeping missions. **The Committee recalls that at the sixtieth session of the General Assembly, the Secretary-General had set out the intention (A/60/846/Add.5 and Corr.1) to review procurement rules and procedures to support immediate operational requirements of peacekeeping missions. The Committee requests that the Secretary-General clarify to the Assembly progress made in this regard.**

16. To address these challenges, the Secretary-General puts forward two main measures. As an initial step towards improving coordination between procurement officers in the Department of Management and requisitioners in the Department of Field Support, the intention is to co-locate the Procurement Division and Department of Field Support clients (A/64/284/Add.1, para. 41). Further, he envisages participation of staff from the Procurement Division in technical assessment and other planning teams (initiated in February 2009), the co-location of the Procurement Division and the Logistics Support Division (to be completed by the end of 2009), and short-term staff exchanges between Headquarters and field missions (to be initiated in the third quarter of 2009).

17. The second measure is to create a regional procurement office. This would be achieved by out-posting Department of Management procurement capacity to the shared service centre that is envisaged to form part of the field support strategy under development by the Department of Field Support. The aim would be to create significant and dynamic procurement peacekeeping capacity in a conflict-free location close to large peacekeeping missions so as to attract and retain the qualified staff required and reduce the footprint and exposure of individual missions. The Departments are pursuing the option of Entebbe (Uganda) with respect to establishing the shared services model and out-posted procurement office on a pilot basis, to be initiated in mid-2010. Staff would be out-posted from the Procurement Division and from field missions. The procurement office in Entebbe would be established as an office independent of any mission or field office administration. The chief of the office would be an out-posted staff member of the Procurement Division. The modalities envisaged for the functioning of the regional procurement office are outlined in paragraphs 47-50 of A/64/284/Add.1.

18. The Advisory Committee notes that according to paragraph 15 of addendum 1 to document A/64/284, these proposals are aimed at: (a) optimizing the functionality of the procurement process so that it meets the need of requisitioning clients as regards timeliness, best value for money and the acquisition of goods and services that are fully fit for the purpose; and (b) strengthening internal control so that, among other things, there is a segregation of responsibilities between the requisitioners and the procurement staff performing that function.

19. The Advisory Committee was informed that the Secretariat intends to proceed to implementing the regional procurement office as a pilot project. According to the Secretary-General, after the completion of the pilot, the transfer of resource requirements would be presented to the General Assembly in the context of the

Assembly's review and approval of the annual support account budget process (see A/64/284/Add.1, para. 51).

20. The Advisory Committee notes that no specific proposal is put to the General Assembly at this time. **The Committee also notes that the regional procurement office concept is associated with the new field support strategy, which has not yet been presented to the Assembly. The Committee emphasizes that a proposal concerning the regional procurement office should be more fully elaborated and presented to the Assembly in the context of its consideration of the strategy, which is to be submitted by the Secretary-General at the second part of the resumed sixty-fourth session. The Committee holds the view that such an initiative should be based on a thorough review of the whole procurement process, so that it effectively addresses gaps and bottlenecks, and that a cost/benefit analysis should be undertaken. The proposal should explain specifically what problems the regional approach would solve, demonstrate why having a third procurement location would improve the functioning of the procurement system, and explain how the objectives described in paragraph 15 of addendum 1 and the benefits anticipated in paragraph 52 thereto would be realized.**

Restructuring of the Procurement Division

21. As shown in figure IV of document A/64/284, the Procurement Division has been reorganized into two services: the Procurement Operations Service and the Integrated Support Service (A/64/284, para. 4). The Advisory Committee was informed of the need to maintain a balance between these two Services within the Division, that is to say, as more resources are allocated to the operational side to handle the increased procurement workload in peacekeeping operations in particular, additional resources must also be allocated to the Integrated Support Service to strengthen its capacity. A Planning, Compliance and Monitoring Section was established in 2007 as a unit of the Integrated Support Service. The Secretary-General indicates, in paragraph 9 of document A/64/284, that the Section needs additional capacity. Upon request, the Committee was provided with detailed terms of reference for the Planning, Compliance and Monitoring Section and was informed that staffing requirements would be presented in the context of the next budget submission.

22. In paragraph 4 of document A/64/284, it is indicated that the operational strategic goals of the Procurement Division have been geared towards the creation of a customer-focused entity with the ability to respond in a timely manner to both peacekeeping operations and other internal clients' requirements. **In this connection, the Advisory Committee notes the efforts made by the Procurement Division to be more responsive to clients' requirements, while increasing procurement opportunities for vendors from developing countries and countries with economies in transition. The Committee is of the view that there is a need to improve the functioning of the end-to-end supply chain at the Secretariat. The Committee encourages the Secretary-General to develop an integrated supply chain approach to the procurement function in the United Nations. This approach would cut across departmental lines, overcoming structural obstacles, so as to ensure that the products reach the client in a timely manner while meeting all other requirements. The Committee is cognizant that supply chain strategies have already been implemented**

successfully in some organizations of the United Nations system (for example, at the United Nations Children's Fund (UNICEF) and the World Food Programme (WFP)).

Pilot project for an independent bid protest system

23. A project for an independent bid protest system is discussed in paragraph 7 of document A/64/284. The issue of providing vendors participating in tenders with a means of disputing procurement-related decisions is one of long-standing concern (see A/62/721, para. 10). The system was to be implemented as a pilot project during 2008 (see A/62/525, paras. 37-39) but became operational only on 1 August 2009, for an initial trial period of 12 months. The operational experience with this system will be reported to the General Assembly following the pilot phase. An independent award review board comprising internal and external experts will review a vendor's challenge to the award. The independent award review board will be initially serviced by the Secretariat of the Headquarters Committee on Contracts. The Secretary-General indicates that this mechanism is expected to provide unsuccessful bidders with an independent means of filing challenges and requesting review of award decisions (A/64/284, para. 7).

24. **The Advisory Committee notes the launching of the pilot project establishing an independent award review board. The Committee expects that in his next report on procurement activities, the Secretary-General will clarify further the terms of reference and authority of the independent award review board and provide statistics on the cases reviewed by this board, detailing the experience gained.**

Oversight of vendors

25. A Senior Vendor Review Committee was established on 15 June 2009 chaired by the Director of the Ethics Office (A/64/284, para. 8). The Committee sought clarification on the role of this new Committee vis-à-vis the terms of reference of the previously established Vendor Review Committee (see A/62/525, paras. 35-36). The Advisory Committee was informed that the purpose of the Senior Vendor Review Committee was to render advice to the Under-Secretary-General for Management with regard to vendors who are under investigation, accused, convicted or involved in litigation in which the vendor is alleged to have engaged, or did engage, in a fraudulent, corrupt or unethical practice.

26. The Senior Vendor Review Committee is composed of the Director of the Ethics Office as the Chairperson and a panel of up to three experts from outside the United Nations. The experts are selected from a list of external experts approved by the Under-Secretary-General for Management comprising, inter alia, international consultant lawyers, dispute resolution institutes and deans of law schools. The Director of the Ethics Office was selected because of his knowledge as a subject-matter expert on fraud and corruption issues and his independence from the United Nations procurement system. The Senior Vendor Review Committee is intended to provide advice independently of the Procurement Division so as to avert any conflict of interest, since issues of ethical behaviour could involve a Procurement Division staff member. The Senior Vendor Review Committee is a pilot project established for a 12-month period before the Secretary-General reports to the General Assembly on lesson learned. The previously established Vendor Review

Committee is a review board for the handling of complaints from potential vendors who have been disqualified from registration or whose application for registration has been rejected. In addition, the Vendor Review Committee evaluates and recommends the suspension, removal or reinstatement of registered vendors from the Secretariat vendor database in case of poor or non-performance and when all contractual provisions have been exercised. The Vendor Review Committee, which comprises the Procurement Division senior management, makes recommendations to the Assistant Secretary-General, Office of Central Support Services. The Senior Vendor Review Committee embodies a new concept that is to be implemented within existing resources. The Committee understands that the Secretary-General will evaluate the performance of the Senior Vendor Review Committee and report back to the Assembly with a request for funding to support its operations on a continuous basis, if the concept is approved by the Assembly.

27. The Advisory Committee notes that in his report on procurement reform (A/60/846/Add. 5 and Corr.1, paras. 28 and 29), the Secretary-General proposed to strengthen and enhance the capacity of the vendor review function. It was proposed that, whenever the Vendor Review Committee dealt with vendors who were believed to have engaged in criminal activities, fraud, corrupt practices, or abusive and unethical conduct, the composition of the Committee would include representatives from various offices within the Secretariat, including the Ethics Office. **The Committee is concerned with the potential proliferation of new structures in connection with procurement activities. The Committee looks forward to the report on the operational experience gained with the Senior Vendor Review Committee, to be submitted to the General Assembly following the trial period of one year (see A/64/284, para. 8). That report should address whether future activities could be accommodated from within existing structures. It should also assess the effectiveness of external participation. With respect to the chairing of the Senior Vendor Review Committee by the Director of the Ethics Office, the Advisory Committee would have reservations with regard to the existence of any operational role for the Director.**

Headquarters Committee on Contracts

28. The Advisory Committee notes that pursuant to paragraph 44 of General Assembly resolution 62/269, steps have been taken to safeguard the independence of the Headquarters Committee on Contracts (A/64/284, para. 10). Under the new arrangements, the Chair of the Headquarters Committee on Contracts and its secretariat report to the Under-Secretary-General for Management from an administrative point of view. Operationally, the Headquarters Committee on Contracts is an independent body the members of which are staff drawn from different functional areas of the Secretariat who serve on a part-time basis. They report to their supervisors in the respective Departments. Paragraphs 19 and 22 of addendum 1 to document A/64/284 explain the role of the Headquarters Committee on Contracts.

29. In paragraph 43 of A/64/284/Add.1, the Secretary-General indicates that the improved governance arrangement would involve having a member of the Department of Field Support participate in the Headquarters Committee on Contracts. Participation of members from the Department of Peacekeeping Operations and the Department of Field Support in the Headquarters Committee on Contracts would be arranged in such a way as to ensure that only one of the two

Departments is represented at any time during the meetings of the Headquarters Committee on Contracts. The Advisory Committee was informed that this arrangement would eliminate potential conflict of interest in the review of contracts. The work of the Headquarters Committee on Contracts is governed by several provisions, as follows: (a) each member of the Headquarters Committee on Contracts is required to recuse himself or herself from reviewing a case when he or she has influenced the preceding part of the procurement process; (b) the recommendations of the Headquarters Committee on Contracts are made by majority (when a dissenting opinion is accepted, the Authorized Official is requested to indicate such an approval; otherwise, acceptance of the recommendations means acceptance of the recommendations by the majority); and (c) a quorum of the Headquarters Committee on Contracts shall exist when there are three members, including the Chairman, present for a meeting. When reviewing a case for field missions, a Committee comprising members from the Department of Field Support and the Department of Peacekeeping Operations, along with a Chairman, can make a majority decision in favour of the mission. According to the Secretary-General, this position might in certain situations compromise the independence of the Committee, which would represent a break in internal controls in the procurement process. The Advisory Committee sought clarification as to why, in such cases, another Department, such as the Department of Political Affairs, would not be considered. The Advisory Committee was informed that, as the majority of field missions led by the Department of Political Affairs are administered by the Department of Field Support, it was deemed that such consideration would have already been given.

30. **In the Advisory Committee's opinion, the overall effectiveness and timeliness of the involvement of the Headquarters Committee on Contracts in the procurement process of the Organization, especially when reviewing cases for field missions, should be clarified in the next report of the Secretary-General. Furthermore, the composition and administrative arrangements of the Headquarters Committee on Contracts should also be kept under review.**

Accountability and delegation of authority

31. Paragraph 11 of the report (A/64/284) discusses the financial thresholds of delegated procurement authority. The delegation of authority for procurement functions across the Secretariat and the separation of duties are presented in A/64/284/Add.1, paragraphs 24-26 and 30-35. The principle of separation of responsibilities of the requisitioning and approving officers is maintained. The Advisory Committee notes that the threshold of cases that are vetted by the Headquarters Committee on Contracts was raised from $200,000 to $500,000 in 2008. As a result, the delegated authority of the Under-Secretary-General for Field Support and of the Director of the Procurement Division was increased to $500,000. Annex I to document A/64/284/Add.1 shows the delegation of authority thresholds across the Secretariat. For peacekeeping operations, the authority to perform procurement functions has been delegated to the Directors/Chiefs of Mission Support. The local committee on contracts makes recommendations on contract awards for approval by the Director/Chief of Mission Support, who can approve contract awards for core requirements valued at up to $1 million without involvement by Headquarters. For all other types of requirements, he or she can approve contract awards valued up to $500,000.

32. Upon enquiry, the Advisory Committee was informed that the local committee on contracts threshold is $75,000. Any procurement action in the peacekeeping mission above $75,000 and below $500,000 is vetted by the local committee on contracts and approved by the Director/Chief of Mission Support. All procurement actions above $500,000 are submitted to the Headquarters Committee on Contracts following review by the local committee on contracts, the Director/Chief of Mission Support and the Procurement Division. When the requirement meets the criteria for core requirements, the Director/Chief of Mission Support can approve contract awards valued at up to $1 million. Core requirements are those essential goods and services that by their nature lend themselves to local procurement and are not under Headquarters system contracts. The Committee was provided with a list of core requirements and special requirements items. The threshold of $1 million for core requirements is set higher to allow the mission to procure the essential items it requires quickly, especially during mission start-up. All core requirements above a value of $75,000 are still subject to the review of the local committee on contracts. The Assistant Secretary-General has provided the Director of the Procurement Division with authorization on the levels of delegation to be granted to the different grades/levels within the Procurement Division. The Director of the Procurement Division has applied his own discretion based on his own assessment of the individual staff member's skills, experience and professional judgement when granting delegated procurement authority. The delegated procurement authority of the Director of the Procurement Division was reviewed twice by the Assistant Secretary-General of the Office of Central Support Services between 2008 and 2009 to increase the level of the delegation and to expand the scope of the delegation with regard to authority and responsibility, as regulated by Financial Rule 105.15.

33. **The Advisory Committee recognizes the importance of well-defined and properly implemented delegation of authority to those involved in the procurement process, particularly in the field missions, so as to speed up the acquisition process. In the Committee's opinion, the Secretary-General should include in his next report on procurement activities adequate information on the experience gained in the implementation of the increased financial thresholds of delegated procurement authority. He should also include information on mechanisms and actions taken to strengthen effective monitoring, oversight and accountability in order to ensure that the following requirements are met: timeliness, best value for money, and the acquisition of goods and services that are fully fit for the purpose.**

Subcontracting

34. The Advisory Committee notes that the issue of subcontracting was taken into account during the revision of the United Nations General Conditions of Contracts in January 2008. Subcontractors are now required to comply with the relevant rules of the Organization (A/64/284, paras. 12-15), as requested by the General Assembly in paragraph 37 of its resolution 62/269. The United Nations contractors are required under article 5 of the General Conditions of Contracts to disclose the identity of their subcontractors prior to entering into agreements with subcontractors. Furthermore, the United Nations has the right to reject any subcontractor and to approve the presence and identities of all entities and personnel involved. Paragraphs 14-15 of document A/64/284 explain how the concerns regarding subcontractors have been dealt with. **The Committee is of the view that**

current arrangements with regard to the subcontractors covered under article 5 of the General Conditions of Contracts provide the means to protect the interests of the Organization. The Secretary-General, in his next report, should provide information on the implementation of this provision.

Vendor registration and database

35. The Advisory Committee notes the progress made in streamlining the vendor registration process and in updating the vendor database (A/64/284, paras. 18-19). This new process was implemented in 2008 in response to paragraph 14 of General Assembly resolution 62/269. It is expected that the new approach will permit small and local vendors, including those in developing countries and countries with economies in transition, to participate in low-value United Nations procurement opportunities without burdensome registration procedures. **The Committee requests that the Secretary-General include an analysis in his next report on procurement activities in respect of how the new approach has increased the opportunities for participation of small and local vendors in United Nations procurement, as well as on the experience gained with the introduction of generic specifications aimed at avoiding deliberately tailored specifications that would predetermine the choice of suppliers by requisitioners (see Assembly resolution 62/269, para. 4).**

B. Information technology

36. The Secretary-General indicates in paragraph 20 of document A/64/284 that the disparate information technology systems currently in use in the Secretariat and in field missions have affected the management of the procurement function. The systems in place do not interface with each other and consequently the Procurement Division does not have a unified database and has not therefore been able to pool all the data and provide a single and seamless portal for the procurement function. Furthermore, as indicated in paragraph 9 above, the ability to implement performance measures has also been affected by the shortcomings of the present information technology system.

37. A contract for a new enterprise resource planning (ERP) software is currently being negotiated. It is expected that the enterprise resource planning system will provide, when fully deployed, a unified database across the Organization, eliminating current problems in respect of using disparate information technology systems in the procurement function at Headquarters and field missions. The system is also expected to provide tools to strengthen internal controls in the execution of the delegation of authority in respect of the procurement function (A/64/284, paras. 20-22).

38. **The Advisory Committee believes that, notwithstanding the projected benefits of an enterprise resource planning system, there are measures that can be taken to strengthen internal controls that are not dependent on the information technology system in place.** The Committee has commented on these matters under the subject of accountability and delegation of authority (see paras. 31-33 above).

C. Ethics, integrity and conflict of interest

39. Pursuant to paragraphs 11 and 12 of General Assembly resolution 62/269, the report of the Secretary-General includes a definition of conflict of interest and discusses steps taken to ensure compliance by procurement staff and vendors with United Nations ethical norms (A/64/284, paras. 23-26). These issues were discussed at length in the Secretary-General's previous report on procurement reform (A/62/525, paras. 10-33). **The Advisory Committee believes that the concept of conflict of interest encompasses more than procurement activities and requires an all-encompassing definition which should stand for the Organization as a whole. In the Committee's view, the definition of the concept of conflict of interest proposed in paragraph 23 of the report (A/64/284) needs further elaboration in consultation with the Office of Legal Affairs and relevant oversight bodies. The Committee recommends that the Secretary-General report on any required amendments to the United Nations Financial Regulations and Rules and/or to the Staff Regulations and Rules of the United Nations as the result of the adoption of a definition of conflict of interest.**

D. Staff management

40. Staff management and training are discussed in paragraphs 27-31 of document A/64/284. The Advisory Committee requested further information on the management review programme of the Procurement Division, which is supposed to facilitate peer-to-peer review of the procurement activities of missions (A/64/284, para. 27). The Committee was informed that the Management Review Programme (also referred to using the term "Procurement Assistance Visits") is a management tool that came into existence pursuant to General Assembly resolution 55/247 of 12 April 2001, by which the Procurement Division was mandated to ensure: (a) the capacity of the field missions to effectively perform procurement functions, (b) efficient mechanisms at Headquarters for monitoring procurement in the field, and assessing the workload and functions of all relevant units involved in the procurement process in order to achieve optimum efficiency in planning and performance and (c) proper training for improving the skill of personnel involved in the procurement process.

41. In accordance with the mandate, the terms of reference of the staff members involved in the Management Review Programme include review of, inter alia: (a) organizational structure, staffing and training requirements; (b) review of the procurement cycle, internal controls and procedures, and segregation of duties; (c) review of procurement documentation, policies and guidelines; (d) compliance with financial rules, the Procurement Manual and other instructions/directives; and (e) specific issues: high-value procurement activities and ongoing projects.

42. In paragraph 28 of his report (A/64/284), the Secretary-General indicates that he intends to develop a strong training programme for which resources would be sought in the support account and peacekeeping budgets, on the basis of a comprehensive needs assessment conducted by an external consultant in late 2008. Further, in paragraph 29 of the report, it is indicated that an external company has been retained to introduce a comprehensive online learning management system, which, inter alia, would draw from courses developed in the previous year. Other training measures are discussed in paragraphs 30-31 of A/64/284.

43. **The Advisory Committee recognizes the importance of training for procurement staff in support of the professionalization of the procurement function. The connection between what is now envisaged in the new training proposals and the training initiatives taken in the past (see A/62/525, para. 81, and A/60/846/Add.5 and Corr.1, paras. 19-24) is not clearly explained in the report. In the Committee's opinion, the Secretary-General should maintain a comprehensive record of all training activities undertaken by procurement staff, including costs incurred, and develop means for assessing the impact of such training on the efficiency and effectiveness of procurement process.**

E. Best value for money principle

44. Paragraphs 33-36 of the report (A/64/284) provide an update of activities related to the implementation of the best value for money principle, which was described in detail in the previous report on procurement reform (A/62/525, paras. 68-70). Best value for money is defined as optimization of whole-life costs and quality needed to meet the user's requirements, while taking into consideration potential risk factors and the availability of resources. The Advisory Committee notes that additional guidelines on the implementation of the best value for money methodology, including all specifics of a weighted evaluation technique to evaluate proposals received in response to requests for proposals were issued to staff involved in procurement on 25 March 2009 (A/64/284, para. 35). **The Committee points out that the report does not include the specifics of the weighted evaluation techniques used by the Procurement Division for evaluation of proposals received in response to requests for proposals, as requested by the General Assembly in paragraph 25 of its resolution 62/269. The Committee requests that, in order to comply with the request contained in that resolution, the Secretary-General should include this information in his next report.**

F. Lead agency concept

45. The activities of the High-level Committee on Management Procurement Network are highlighted in paragraph 43 of the report of the Secretary-General (A/64/284). The terms of reference of the Committee were explained in detail in a previous report of the Secretary-General (A/62/525, para. 79). The lead agency concept and cooperation on procurement activities with other organizations within the United Nations system were also discussed in A/62/525, paragraphs 63-67. The Committee commented on the subject of the lead agency concept in paragraph 28 of its report A/62/721. The General Assembly has not yet taken a decision on the lead agency concept, as indicated in paragraph 25 of resolution 61/246. **The Advisory Committee is of the view that in the light of further development of the strategic management of the procurement function within the United Nations system, the Secretary-General should continue to report on procurement activities in cooperation with other United Nations organizations, particularly those carried out through the lead agency concept, pursuant to paragraph 26 of Assembly resolution 61/246.**

G. Increasing procurement opportunities for vendors from developing countries and countries with economies in transition in United Nations procurement

46. Paragraphs 44-47 and 51-54 of the Secretary-General's report (A/64/284) provide information on measures taken to increase vendor registration and procurement volume from developing countries and countries with economies in transition. Annexes II and III of document A/64/284 provide statistics on procurement volume and goods and services procured from developing countries and countries with economies in transition. Upon request, additional information was provided on goods and services procured by country. The Committee was also provided with an updated table on trends in vendor registration, as follows:

	2004 (May)	*2005*	*2006*	*2007*	*2008*	*2009* (September)*
Number of vendors from developing countries and countries with economies in transition	72 (18.13%)	87 (20.15%)	47 (19.26%)	70 (20.59%)	83 (22.93%)	**103 (30.20)**
Number of vendors from industrialized countries	319	344	197	270	279	**238**
Total	**391**	**431**	**244**	**340**	**362**	**341**

* Updated figures as at 23 September 2009.

47. In paragraph 47 (e) of the report (A/64/284), a supplier financing option is envisaged as a means to alleviate finance-related difficulties which may hinder the participation of vendors from developing countries and countries with economies in transition in United Nations procurement. Upon enquiry, regarding the modus operandi of this initiative, the Committee was informed that the supplier finance programme would be structured in such a way as not to expose the Organization to any form of risk or liability. The United Nations would inform its suppliers of the existence of the programme and the suppliers would contact the participating banks directly. The financial institutions involved would conduct their own due diligence in terms of credit (risk analysis) and compliance and with regard to each vendor wishing to participate in the programme. The two parties may then create a direct commercial relationship between themselves without the involvement of the United Nations. The Advisory Committee was informed that the United Nations would make no guarantees/warrants to any one of the parties in this commercial relationship. It would be the responsibility of each bank to protect itself against any risks arising out of any financing arrangement with a supplier. The Committee was further informed that the programme aimed at providing small and medium-sized enterprises from developing countries and countries with economies in transition with access to liquidity, while at the same time protecting the Organization from financial liability.

48. The Advisory Committee notes from paragraph 44 and table 2 of the report (A/64/284) that the participation of developing countries and countries with economies in transition has increased in United Nations procurement. **The Committee encourages the Secretary-General to continue his efforts to promote procurement opportunities for vendors from developing countries and**

countries with economies in transition, and welcomes the proactive approach taken to identify means to expand participation of these countries in United Nations procurement activities. The Committee recommends that business conferences and seminars should be used effectively to generate both awareness about opportunities and the procedural requirements for participation in procurement activities at the United Nations.

Bid bonds and performance bonds

49. As indicated in paragraph 48 of the report (A/64/284), bid bonds and performance bonds are security instruments designed to safeguard the Organization against the risk of non-performance by its contractors or vendors. These instruments are used to secure a vendor's bid or proposal and to mitigate risks in situations where delays or deficiencies in performance will adversely impact the Organization. The requirement for vendors to submit bid bonds and performance bonds is perceived by small enterprises as an additional financial burden which limits the participation of small business from developing countries and countries with economies in transition (A/64/284, para. 46 (c)).

50. The Advisory Committee notes from paragraph 49 of the report (A/64/284) that the policy on security instruments was reviewed in 2009 and redesigned to accommodate small enterprises so that they would be able to participate in United Nations procurement activities. Performance bonds are set at 10 per cent of the contract value, but this figure may vary according to the level of risk of default and the severity of the possible consequences of the breach. Requests for performance bonds, including the amount of the bond, may depend on the professional judgement of the Chief Procurement Officer. The Committee sought clarification on this matter and was informed that it is the responsibility of the Chief Procurement Officer to use his experience and professional judgement, as well as best industry practices, to assess the risk to the Organization and to set the appropriate level of the performance bond. As each procurement case is different, a bond must be assessed according to its own merits. Every decision taken by a Chief Procurement Officer is supported by a detailed analysis of the risk and circumstance and is documented for audit purposes. Finally, the local committee on contracts/Headquarters Committee on Contracts are responsible for reviewing the procurement case and rendering independent advice on all aspects of any procurement case. **The Committee is concerned with the discretionary authority given to the Chief Procurement Officer in deciding whether a performance bond is required and, if so, the level of the bond.**

Bidding by joint ventures

51. Pursuant to paragraph 28 of General Assembly resolution 62/269, the Secretary-General reports on the justification for and legal regulations of joint ventures, registration in the United Nations vendor roster and safeguards against possible limitations in competition in United Nations procurement (A/64/284, para. 55). The target group of this proposal comprises the small and medium-size enterprises that would not normally take part in United Nations procurement. It is expected that this initiative will also benefit small enterprises in developing countries and countries with economies in transition that may not otherwise be able to participate in United Nations procurement owing to a limited resource base and production capacity.

52. Upon enquiry, the Advisory Committee was informed that the Organization had in-built mechanisms to prevent the formation of cartels that may limit competition in United Nations procurement. All vendors that participate in United Nations procurement actions have to undergo a registration process which requires vendors to disclose shareholding structures. In this way, joint ventures are known to the Vendor Registration Unit of the Procurement Division. The system is designed in such a way as to ensure that joint ventures can be easily detected and investigated to make certain that their formation is not meant to circumvent the United Nations rules on competition.

III. Other issues

Sustainable procurement

53. Addendum 2 to the report (A/64/284) is a report on the content of and criteria for the concept of sustainable procurement, including detailed information on its possible impact on the diversification of the origin of vendors and international competition, as requested by the General Assembly in paragraph 33 of its resolution 62/269. The concept of sustainable procurement was first introduced by the Secretary-General in his report contained in document A/62/525. The concept of sustainable procurement complements the best value for money principle which was already adopted by the Organization. The Secretary-General describes sustainable procurement as an acquisition process whereby the Organization meets its requirements for goods and services in such a way as to achieve value for money on a whole-life basis in terms of generating benefits not only to the Organization, but also to society and the economy (A/64/282/Add.2, para. 4).

54. The Advisory Committee was informed that the concept of sustainable procurement fits well within the principles guiding the procurement function, namely (a) best value for money; (b) fairness, integrity and transparency; (c) effective international competition; and (d) the interest of the Organization. Extensive groundwork would be carried out before the sustainability concept was fully implemented. It would be implemented in phases through small incremental steps, at a pace that will be determined by the degree of maturity of the supply market and the readiness of the United Nations to fully embrace the concept of sustainable procurement.

55. **In the Advisory Committee's opinion, the implementation of sustainable procurement should be explored with caution in a manner consistent with best practices in today's market and with the United Nations procurement principles of best value for money; fairness, integrity and transparency; effective international competition; and the interest of the United Nations. The Committee emphasizes that, should the General Assembly endorse this approach, it should not become a new challenge to the participation of developing countries and countries with economies in transition in United Nations procurement. The Committee recommends that the Secretary-General continue to inform the Assembly concerning proposed initiatives in sustainable procurement.**

IV. Conclusion

56. **The Advisory Committee has raised a number of concerns in the present report and recommends that the Secretary-General report to the General Assembly on these issues in a timely manner.**

Annex I

Procurement volumes for offices away from Headquarters, tribunals and commissions, 2007 and 2008

2007: number of purchase orders and procurement values

Office away from Headquarters	*Number of purchase orders*	*Value of purchase orders (United States dollars)*
ECA	320	7 778 645
ECLAC	1 267	10 215 458
ESCAP	2 357	10 128 277
ESCWA	298	4 775 804
ICTR	421	8 542 364
ICTY	506	29 860 340
UNOG	4 403	80 123 573
UNON	1 857	56 372 194
UNOV	1 698	22 388 036
Total	**13 127**	**230 184 690**

2008: number of purchase orders and procurement values

Office away from Headquarters	*Number of purchase orders*	*Value of purchase orders (United States dollars)*
ECA	378	7 830 328
ECLAC	986	5 843 537
ESCAP	727	7 496 361
ESCWA	164	3 081 457
ICTR	377	9 884 000
ICTY	350	29 522 738
UNOG	3 358	64 411 741
UNON	1 379	16 033 748
UNOV	1 188	16 344 852
Total	**8 907**	**160 448 762**

Abbreviations: ECA, Economic Commission for Africa; ECLAC, Economic Commission for Latin America and the Caribbean; ESCAP, Economic and Social Commission for Asia and the Pacific; ESCWA, Economic and Social Commission for Western Asia; ICTR, International Criminal Tribunal for Rwanda; ICTY, International Tribunal for the Former Yugoslavia; UNOG, United Nations Office at Geneva; UNON, United Nations Office at Nairobi; UNOV, United Nations Office at Vienna.

Annex II

Total procurement staff in field missions as of 23 September 2009

	Procurement staff in the field missions		
Mission	*Approved number of posts*	*Actual encumbered posts*	*Vacancies*
BINUB	7	5	2
MINURCAT	19	13	
MINURSO	8	8	0
MINUSTAH	20	20	0
MONUC	46	44	2
UNAMA	11	9	2
UNAMI	27	20	7
UNAMID	40	26	14
UNDOF	15	14	1
UNFICYP	8	8	0
UNIFIL	32	23	9
UNIPSIL	1	1	0
UNLB	13	11	2
UNMIK	9	9	0
UNMIL	28	22	6
UNMIN	7	7	0
UNMIS	40	27	13
UNMIT	14	11	3
UNMOGIP	3	2	1
UNOCI	17	14	3
UNOMIG	7	5	2
UNTSO	5	5	0
Total	**377**	**304**	**73**
Vacancies (percentage)		**19%**	

Abbreviations: BINUB, United Nations Integrated Office in Burundi; MINURCAT, United Nations Mission in the Central African Republic and Chad; MINURSO, United Nations Mission for the Referendum in Western Sahara; MINUSTAH, United Nations Stabilization Mission in Haiti; MONUC, United Nations Organization Mission in the Democratic Republic of the Congo; UNAMA, United Nations Assistance Mission in Afghanistan; UNAMI, United Nations Assistance Mission for Iraq; UNAMID, African Union-United Nations Hybrid Operation in Darfur; UNDOF, United Nations Disengagement Observer Force; UNFICYP, United Nations Peacekeeping Force in Cyprus; UNIFIL, United Nations Interim Force in Lebanon; UNIPSIL, United Nations Integrated Peacebuilding Office in Sierra Leone; UNLB, United Nations Logistics Base at Brindisi, Italy; UNMIK, United Nations Interim Administration Mission in Kosovo; UNMIL, United Nations Mission in Liberia; UNMIN, United Nations Mission in Nepal; UNMIS, United Nations Mission in the Sudan; UNMIT, United Nations Integrated Mission in Timor-Leste; UNMOGIP, United Nations Military Observer Group in India and Pakistan; UNOCI, United Nations Operation in Côte d'Ivoire; UNOMIG, United Nations Observer Mission in Georgia; UNTSO, United Nations Truce Supervision Organization.

Annex III

Number of purchase orders versus number of posts, 2004-2008